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June 4, 1999

**PLEASE DATE-STAMP
AND RETURN**

Ex Parte

Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
445 12th Street, SW
Washington, DC 20554

RECEIVED

JUN 4 1999

Re: CC Dkt. 98-64, CC Dkt. 98-177, CC Dkt 96-150,
CC Dkt. 98-74, and CC Dkt. 98-117 ✓
FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

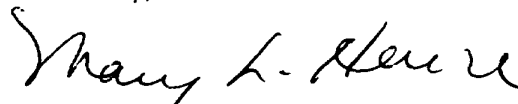
Dear Ms. Salas,

On June 3, 1999, Guy Cochran, Tim Gowins and I, representing BellSouth, met with Larry Strickling, Chief of the Commission's Common Carrier Bureau, and the following members of his staff: Bill Bailey; Ken Moran; Joanne Lucanik; and Tim Peterson.

During the meeting the BellSouth representatives proposed specific changes to Section 32.27 and Sections 64.901 - 64.904 of the Commission's rules and regulations that BellSouth believes will reduce subject carriers' administrative costs and increase their flexibility without diminishing the Commission's ability to fulfill its statutory responsibilities. In addition, BellSouth presented a proposal for streamlining the ARMIS 43-01, 02, 03 and 04 financial reports. The attached documents formed the basis for the BellSouth presentation.

As required by Section 1.1206(b) (2) of the Commission's rules, I am filing two copies of this notice for inclusion in the dockets identified above and ask that you associate this notification and the attachments with the records of each of these proceedings.

Sincerely,


Mary L. Henze

cc: L. Strickling (w/o attachments)
B. Bailey (w/o attachments)
K. Moran (w/o attachments)
J. Lucanik (w/o attachments)
T. Peterson (w/o attachments)

Section 32.27 and Sections 64.901-64.904
Phase 1 Simplification Proposals
BellSouth Telecommunications, Inc.

I. Section 64.901 Allocation of Costs

A. Tariffed Incidental InterLATA

The Act did not require these services to be accounted for as nonregulated. Double burden - tariff process and nonregulated treatment.

B. Accounting for Universal Service

Part 64 does not handle the apportionment of costs between individual regulated services. Part 54 impacts Univ. Svc. Pricing and accounting rules should be worked through with other Univ. Svc. Issues.

Section 32.27 and Sections 64.901-64.904
Phase 1 Simplification Proposals
BellSouth Telecommunications, Inc.

II. Section 64.902 & Section 32.27 Transactions with affiliates

A. Application of Rules to nonregulated operations of the carrier

Nonregulated operations are double burdened when apply both Part 64 cost apportionment and affiliate transaction rules

B. Exception for Services provided Solely within the Corporate Family

Apply “services company” exception to all services designed solely for internal use

C. Lower limit for application of EFMV studies

Double burden of both FDC and EFMV would not apply to de minimis items

Section 32.27 and Sections 64.901-64.904
Phase 1 Simplification Proposals
BellSouth Telecommunications, Inc.

III. Section 64.904 Independent Audits

A. Attestation Engagement

Attestation on CAM/Rule compliance versus “testing numbers”

B. Standards Governing Audit Engagements

Audits performed in accordance with professional standards without ASD’s overlays

C. Biennial Engagements

Independent Auditors perform compliance review every other year

Section 32.27 and Sections 64.901-64.904
Phase 1 Simplification Proposals
BellSouth Telecommunications, Inc.

IV. Section 64.903 Cost Allocation Manuals

A. Eliminate 15 day pre-filing for Cost Pool Changes

**Discontinue disclosure of competitive information in time for competitors
to react**

Proposals for Phase 1 Simplification of Accounting Rules

Section 32.27 and Sections 64.901-64.904

I. Section 64.901 Allocation of Costs

A. Tariffed Incidental InterLATA

Section 271(h) of the Telecommunications Act requires the Commission to ensure that the provision of incidental interLATA telecommunications services by a BOC or its affiliate “will not adversely affect telephone exchange service ratepayers or competition in any telecommunications market.” In an effort to increase the regulatory safeguards in this area, CC Docket 96-150 prescribed treating incidental interLATA telecommunications services as nonregulated under the Section 64.901 rules.

The CC Docket 96-150 Order states the Part 64 rules are designed to “protect subscribers to interstate exchange and exchange access services from bearing the costs and risks of the carrier’s nonregulated activities provided on an integrated basis.” Further, the Order states: “We believe that this [treating incidental interLATA services as nonregulated] should sufficiently safeguard against cross-subsidization without imposing additional accounting requirements on the carriers ... such a requirement will not impose extensive expense upon incumbent local exchange carriers.”

CC Docket 96-150 requirements should be revised for two primary reasons. First, unlike other services that are treated as nonregulated under the Part 64 rules, incidental interLATA services also continue to be governed by the Commission’s tariff process. Accounting for incidental interLATA services as both tariffed operations and as nonregulated services serves to impose a double burden upon these competitive services. This double regulatory burden is inefficient for the carriers and counter to the goal of a level playing field and streamlined regulation set forth in the Act. Second, treating incidental interLATA services as nonregulated is not an effective safeguard for the purposes of the Section 271(h) mandate. The Commission concluded in Docket 96-150 that “the Part 36 jurisdictional separations process and the Part 69 access charge process were not designed to prevent subsidization of competitive telecommunications services by subscribers to exchange and exchange access services.” The Part 64 rules, likewise, were not designed to prevent subsidization between individual competitive telecommunications services and, as all telecommunications services have become competitive under the Telecommunication Act, Part 64 is not the appropriate part of the Commission’s rules and regulations under which to handle this mandate.

As incidental interLATA telecommunications services continue to be regulated services and subject to the burdens of the tariff process, the most

effective way to assure these services “will not adversely affect telephone exchange service ratepayers or competition” is through the tariff review process.

B. Accounting for Universal Service under Section 254(k)

In the FCC’s Order dated May 8, 1997 under FCC #97-163, the Commission stated that Section 254(k) establishes two “dichotomies” that are not addressed by the existing rules. The Commission opined that additional scrutiny is needed on the allocation of costs between competitive and noncompetitive activities, both regulated and nonregulated, and on the other hand, between universal service and other services. Accordingly, the Commission found that there was no perfect fit for these new requirements and without notice and comment procedures codified the requirements of the Act within Part 64.

Because ILEC regulated as well as nonregulated services are now competitive, the word “competitive” is no longer synonymous with nonregulated operations. Accordingly, the rule implementing Section 254(k) is not appropriately placed within Part 64 of the Commission’s Rules and regulations. Section 64.901 prescribes the apportionment of costs and revenues between regulated and nonregulated operations. These rules do not prescribe cost apportionment between any individual services.

The market opening requirements of the 1996 Act have rendered the concept of “non-competitive” telecommunications services obsolete. The Commission should move the codification of Section 254(k) from Part 64 to Part 54 of the Rules. The Commission has the greatest impact upon the prices for services included in the definition of Universal Service through its Universal Service Fund rules found in Part 54. Accordingly, these requirements should be moved to Section 54.7.

II. Section 64.902 & Section 32.27 Transactions with Affiliates

A. Application of Affiliate Transaction Rules between Nonregulated Operations of the Carrier and their Affiliates

Section 32.27(c) prescribes affiliate transaction rules for *all* transactions between a carrier and its affiliates. Hence, transactions between regulation and regulated, regulated and nonregulated, and nonregulated and nonregulated operations of the carrier are subject to the same asymmetrical accounting requirements.

Investment and expenses are assigned or apportioned to the carrier’s nonregulated operations and are not included among the costs to be recovered by the carrier from regulated services. Hence, the application of Section 32.27 to transactions between a carrier’s nonregulated operations and its

nonregulated affiliates gives regulated service subscribers no additional protection against their subsidizing the ILEC's nonregulated operations. There is no impact upon regulated services after apportionment is accomplished.

As stated by Arthur Andersen LLP in its report dated July 15, 1998: "Companies outside the regulated telecommunications industry typically develop transfer prices for goods and services provided to/received from affiliates on either a cost or a market price basis. ... Cost is normally determined on a "fully allocated" basis, roughly the equivalent to FDC as defined by the FCC." Accordingly, as the Arthur Andersen report states, SFAS No. 57 provides the external disclosure requirements for related party transactions.

Nonregulated, competitive service providers (e.g., CLECs, IXCs, ESPs, ISPs, answering services, cable operators, CPE providers) are not required to record their business transactions with their affiliates under the asymmetrical rules the ILECs must follow. Applying the affiliate transaction rules to nonregulated ILEC transactions with its nonregulated affiliates increases the administrative cost of the ILEC in comparison with its competitors with no concomitant benefit to its regulated service subscribers. Such an outcome is inconsistent with the intent of Congress to promote competition and reduce regulation. Affiliate transactions rules should not apply to transactions between the ILEC's nonregulated operations and its nonregulated affiliates.

B. Exception for Services provided Solely within the Corporate Family

The Commission concluded in its Order in CC Docket 96-150 that services should "be valued at fully distributed cost" when they are "tailored to the corporate family's unique needs" and when the entity providing these services "exists solely to provide services to members of the carrier's corporate family." [paragraph 148] The Commission found "when an affiliate is established to provide services solely to the carrier's corporate family in an effort to take advantage of economies of scale and scope, the benefits of such economies of scale and scope are reflected in such affiliate's costs and are ultimately transferred to ratepayers through transactions with the carrier for such services valued at fully distributed costs. Requiring carriers to perform fair market valuations for such transactions would increase the cost to ratepayers while providing limited benefits."

This exemption currently applies on an entity-wide basis when the entire affiliate is established to provide service solely to the corporate family. The exemption should be expanded to apply to individual services provided solely within the corporate family by design, without regard to the nature of the affiliate providing the service. The design of a service to capture economies of scope and scale would benefit the ratepayer, regardless of the other operations of the affiliate providing the service. These services should be recorded at FDC.

Application of the current affiliate transaction rules to internal services has resulted in the recording of margins as revenues on services where only cost reimbursement between affiliates was intended. In addition, too often these services provided only within the corporate family have no commercial equivalent and additional costs are incurred in obtaining a fair market value for services for which there is no available vendor data (e.g., executive oversight).

C. Threshold for Application of Estimated Fair Market Value Study

In CC Docket 96-150 the Commission revised the affiliate transaction rules to require asymmetrical treatment when there is neither a tariff rate nor the 50% prevailing price test is met. The carrier must record sales to affiliates at the higher of fully distributed cost (FDC) or estimated fair market value (EFMV) and purchases from affiliates at the lower of the affiliates' FDC or EFMV.

After two years' experience with this revision to the rules, there appears to be little, if any, ratepayer benefit derived from the ILECs being required to calculate both FDC and EFMV for affiliate transactions of de minimis value. An aggregated annual threshold of \$250,000 for each service transaction per affiliate should be set for application of the EFMV standard if the computation of FDC is also required. Service transactions falling under this limit would not require both FDC and EFMV documentation, but they would be booked at FDC. (The term "transaction" refers to the total annual value of service transaction between affiliates.)

III. Section 64.904 Independent Audits

A. Attestation Engagement

Audits have played a significant role in the Commission's responsibility to assure compliance with their rules. Since 1988 the Commission has required incumbent LECs to engage independent auditors to assist the Commission with that responsibility. Currently the Commission requires a Financial Statement audit of the ARMIS 43-03, Joint Cost Report.

The regulatory landscape has changed since 1988. Most Tier I Carriers are under price regulation, which significantly reduces incentives for cost shifting. The Commission should recognize that these carriers are now beginning to compete with carriers that need not incur the costs of these audits and that the changes that have occurred warrant less burdensome means of achieving the Commission's enforcement responsibilities.

The audit engagement mandated under Section 64.904 should be changed to an attestation engagement. With an attestation engagement, the independent auditor performs procedures on evidence applicable to the Company's assertion that the FCC's 43-03 Report has been prepared in

accordance with the Cost Allocation Manual filed with the FCC. The attestation engagement would focus on controls, processes, and the ILEC's compliance with the CAM filed with the Commission in accordance with the Part 64 Rules (Allocation of costs, Transactions with affiliates, and Cost allocation manuals).

The Commission's regulatory oversight would continue as ILECs' controls and processes will still be examined on a regular basis. The Commission would continue to receive an independent auditor's opinion as to each ILECs' compliance with its CAM filed in accordance with the Part 64 Rules. Changing to an attestation engagement based upon compliance with the CAM rather than detailed auditing of the amounts and disclosures of the ARMIS 43-03, will make the oversight of these audits more manageable and provide the Bureau with information focusing specifically on the carrier's compliance.

B. Standards Governing Audit Engagements

Section 64.904(a) requires an annual audit "conducted in accordance with generally accepted auditing standards, except as otherwise directed by the Chief, Common Carrier Bureau."

Given the changing regulatory landscape discussed previously, the Tier I Carriers should be under the same audit burdens as those imposed upon their competitors. Like their competitors, the Tier I Carriers have audits performed annually to satisfy the Securities and Exchange Commission (SEC) requirements. These audits are governed by the standards set by the American Institute of Certified Public Accountants (AICPA).

As with all audits performed under Generally Accepted Auditing Standards (GAAS), the auditor sets materiality limits and performs testing under the professional standards set by the AICPA. The mandatory testing of immaterial items, which can occur under existing rules, provides no ratepayer benefit and is unnecessary for an independent auditor to issue his opinion. The testing of immaterial items does, however, greatly increase the carrier's audit costs and imposes a competitive disadvantage on the carrier with no concomitant benefit to the public interest. For these reasons the Part 64 audit engagements should be conducted under GAAS as set forth by the AICPA.

C. Biennial Engagements

Section 64.904(a) requires "an audit performed by an independent auditor on an annual basis". Converting to a biennial cycle for independent auditor engagements would not undermine the Commission's ability to monitor carrier compliance with the accounting safeguards. Recognizing this, Congress prescribed a biennial cycle in the Telecommunication Act for Section 272 compliance audits. A biennial engagement for the Part 64 audit will facilitate a possibility of alternate audit years with the 272 audits for the

BOCs and would provide a net reduction of regulatory burden for all other Tier I Carriers.

IV. Section 64.903 Cost Allocation Manuals

A. 15-day pre-filing Requirements for Cost Pool Changes

Section 64.903(b) requires carriers to “update their cost allocation manuals annually, except that changes to the cost apportionment table and to the description of time reporting procedures must be filed at least 15 days before the carrier plans to implement the changes.” The Telecommunication Act of 1996 recommended annual CAM filings.

The 15-day special filing requirements for changes in cost pools discloses sensitive competitive service information. In contrast, competitors are never required to file in the public record estimates of cost impacts of new products and services they propose to introduce. This filing obligation imposed on Tier I carriers gives competitors prior notice of these new offerings in ample time for the competitors to react in the market. The 15-day pre-filing requirement for cost pool changes no longer serves the public interest and should be eliminated.

Phase 1 Proposals for Simplification of Accounting Rules

Section 32.27 and Sections 64.901-64.904

RULES

Section 64.901(4)(c) ~~A telecommunications carrier may not use services that are not competitive to subsidize services subject to competition. Services included in the definition of universal service shall bear no more than a reasonable share of the joint and common costs of facilities used to provide those services.~~ MOVE TO PART 54.7

Section 32.27(c) Services provided between a carrier and its affiliate pursuant to a tariff, including a tariff filed with a state commission, shall be recorded in the appropriate revenue accounts at the tariffed rate. Non-tariffed services provided between a carrier and its affiliates pursuant to publicly-filed agreements submitted to a state commission pursuant to section 272(e) of the Communications Act of 1934 or statements of generally available terms pursuant to section 252(f) shall be recorded using the charges appearing in such publicly-filed agreements or statements. Nontariffed services provided between a carrier and its affiliate that qualify for prevailing price valuation, as defined in paragraph (d) of this section, shall be recorded at the prevailing price. ***For all services designed to be provided solely within the corporate family, the transaction will be recorded at the fully distributed cost.*** For all other services provided by a carrier's ***regulated operations*** to its affiliate, the services shall be recorded at the higher of fair market value and fully distributed cost. For all other services received by a carrier's ***regulated operations*** from its affiliate, the service shall be recorded at the lower of fair market value and fully distributed cost, ~~except that services received by a carrier from its affiliate that exist solely to provide services to members of the carrier's corporate family shall be recorded at fully distributed cost.~~ For purposes of this section carriers are required to make a good faith determination of fair market value ***only for those transactions which exceed \$250,000 on an annual basis.***

Section 64.903(b) Each carrier shall ensure that the information contained in its cost allocation manual is accurate. Carriers must update their cost allocation manual at least annually, ~~except that changes to the cost apportionment table and to the description of time reporting procedures must be filed at least 15 days before the carrier plans to implement the changes.~~ Annual cost allocation manual updates shall be filed on or before the last working day of each calendar year. Proposed changes in the description of time reporting procedures, the statement concerning affiliate transactions, and the cost apportionment table must be accompanied by a statement quantifying the impact of each change on regulated operations. Changes in the description of time reporting procedures and the statement concerning affiliate transactions must be quantified in \$100,000 increments at the account level. Changes in cost apportionment tables must be quantified in \$100,000 increments at the cost pool level. The Chief, Common Carrier Bureau may suspend any such ~~charges~~ **changes** for a period not to exceed 180 days, and may thereafter allow the change to become effective or prescribe a different procedure.

Section 64.904(a) Each local exchange carrier required to file a cost allocation manual, by virtue of having annual operating revenues that equal or exceed the indexed revenue threshold for a given year or by order of the Commission, shall have an audit performed by an independent auditor on ~~an~~ **biennial** basis, with the initial audit performed in the calendar year after the carrier is first required to file a cost allocation manual. The audit shall provide a positive opinion on ***the carrier's assertion that the carrier has complied with whether the applicable data shown in the carrier's annual report required by*** ~~§43.21(e)(2) of this chapter present fairly, in all material respects, the information of the carrier required to be set forth therein in accordance with the carrier's cost allocation manual, the Commission's Joint Cost orders issued in conjunction with CC Docket No. 86-111 and the Commission's rules and regulations including §§32.23 and 32.27 of this chapter, 64.901, and 64.903 in force as of the date of the auditor's report. The audit shall be conducted in accordance with the generally accepted auditing standards, except as otherwise directed by the Chief, Common Carrier Bureau.~~

(b) The report of the independent auditor shall be filed at the time that the local exchange carrier files the annual report required by §43.21(f)(2) of this chapter.

BellSouth ARMIS Simplification Proposal

Reports 43-01, 02, 03, and 04

II. Overview

- Consolidates Existing 43-02 and 43-03 Reporting into the 43-01
- Creates a New 43-02 Report to Provide Relevant Statistical and Financial Information
- Simplifies the 43-04 and Aligns with 43-01 Format
- Anticipates Further Changes to the Commission's Rules
- Consistent with Other Simplification Proposals

BellSouth ARMIS Simplification Proposal

Reports 43-01, 02, 03, and 04

I. Objectives

- Simplify and Consolidate Reporting Requirements
- Eliminate Redundant Information Between Reports
- Provide Consistency in Reporting Requirements for All Reporting Companies
- Align Reporting Requirements with Price Cap Regulation
- Recognize Increased Sensitivity to Confidential Data
- Position Reporting Requirements for Future Rule Changes

BellSouth ARMIS Simplification Proposal

Reports 43-01, 02, 03, and 04

III. 43-01, ARMIS Annual Report

- Maintains Existing Format for Revenue and Cost Data (Column a)
- Consolidates 43-02 Reporting Requirements Consistent with Adoption of Class B Reporting Requirements for All Carriers (Column b)
- Consolidates 43-03 Reporting Requirements While Meeting All Current Audit/Attestation Requirements (Column c)
- Accommodates Future Dockets (Column d)
- Eliminates Redundant Reporting of Access Charge Detail
- Anticipates Simplification of Jurisdictional Separations

BellSouth ARMIS Simplification Proposal

Reports 43-01, 02, 03, and 04

IV. 43-02, ARMIS Statistical Data

- Provides Statistical/Miscellaneous Information Previously Included in Other Reports
 - Separations Categorization/Allocation Data (Table 2)
 - Lifeline/Universal Service Fund Information (Table 3)
 - Access Line Data (Table 4)
- Anticipates Additional Reporting Requirements
 - Universal Service Fund Accounting Information (Table 1)
 - Other Financial/Statistical Information

BellSouth ARMIS Simplification Proposal

Reports 43-01, 02, 03, and 04

V. 43-04, ARMIS Access Report

- Adopts 43-01 Format (Rows)
- Limited to Interstate Access Charge Data
- Eliminates Duplicate Information from the Existing 43-01 (Columns)
- Consolidates Part 61/69 Categorization Detail
- Underlying Detail Retained
- Anticipates Future Simplification and Alignment of Part 61/69 Rules

BellSouth ARMIS Simplification Proposal

Reports 43-01, 02, 03, and 04

VI. Timing

- Proposals Do Not Require Modification of Underlying Rules
- May Be Implemented Immediately
- 1999 Reporting Year Entirely Reasonable

EXHIBIT I
SHEET 1 of 3

FCC REPORT 43-01
ARMIS ANNUAL REPORT
COMPANY: BellSouth Telecommunications
STUDY AREA: BST
PERIOD: From Jan 1997 To Dec 1997

Approved By OMB
Expires:
Unrestricted Version
SUBMISSION 1
TABLE I
PAGE 1 OF 2

TABLE I - COST AND REVENUE TABLE
(Dollars in thousands)

(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
	Total	Nonreg	All Other Adjustments	ARMIS Adjustments	Subject to Separations	Interstate	State
Revenues							
1010 Basic Local Services	8,657,516	0	0	327	8,657,189	0	8,657,189
1020 Network Access Services	4,416,416	0	0	47,312	4,369,104	3,585,000	784,104
1030 Toll Network Services	713,636	0	0	0	713,636	14,536	699,100
1040 Miscellaneous	529,217	0	0	0	529,217	91,683	437,534
1045 Nonregulated	559,727	559,727	0	0	0	0	0
1050 Settlements	(41,921)	0	0	0	(41,921)	6	(41,927)
1060 Uncollectible	166,375	8,574	0	0	159,801	38,295	121,506
1090 Total Operating Revenues	14,666,216	551,153	0	47,639	14,067,424	3,652,930	10,414,494
Expenses							
1120 Plant Specific	2,652,685	244,288	0	203	2,408,194	609,878	1,798,316
1130 Plant Non-Specific	983,568	80,294	0	14	903,260	230,983	672,277
1140 Customer Operations Marketing	694,348	148,998	0	0	545,350	150,217	395,133
1150 Customer Operations Services	1,126,253	75,095	0	(1,235)	1,052,393	216,791	835,602
1160 Corporate Operations	1,364,126	97,800	0	8	1,266,318	306,963	959,355
1170 Access	71,707	0	0	(4,772)	76,479	4,772	71,707
1180 Depreciation/Amortization	3,292,430	55,532	0	46	3,236,852	842,185	2,394,667
1185 FCC Expense Adjustment	0	0	0	0	0	424	N/A
1190 Total Operating Expenses	10,185,117	702,007	0	(5,736)	9,488,846	2,362,213	7,127,057
Other Operating Items							
1290 Other Operating Income/Losses	(333)	(1)	0	0	(332)	(117)	(215)
Non-Operating Items							
1320 Inc Effect/Jurisdictional Diff (Rev)	(388,838)	0	0	0	(388,838)	0	(388,838)
1330 Extraordinary Items (Rev)	(9,324)	0	0	(9,324)	0	0	0
1340 AFUDC (Rev)	16,155	133	0	0	16,022	4,082	11,940
1350 Special Charges (Exp)	39,518	1,558	0	22,048	15,912	4,060	11,852
1360 All Other Non-Oper Items (Rev)	416,369	416,228	0	0	141	0	141
1370 FCC Non-operating Adj (Exp)	0	0	0	0	0	0	0
1390 Total Non-oper Items (Exp)	5,156	(414,803)	0	31,372	388,587	(22)	388,609
Other Taxes							
1410 State And Local Income	166,302	(10,363)	0	29,917	146,748	53,309	93,439
1420 Other State And Local	591,471	5,736	0	13	585,722	118,808	466,914
1490 Total Other Taxes	757,773	(4,627)	0	29,930	732,470	172,117	560,353
Federal Income Taxes							
1510 Fixed Charges (Exp)	548,600	9,913	0	16,529	522,158	131,207	390,951
1520 IRS Income Adjustment (Rev)	19,029	0	0	2,044	16,985	(155)	17,140
1530 FCC Taxable Income Adj (Rev)	0	0	0	0	0	700	(700)
1540 ITC Amortization (Rev)	44,639	245	0	(193)	44,587	11,420	33,167
1550 FCC ITC Adjustment (Rev)	0	0	0	0	0	0	0
1590 Net Federal Income Taxes (Exp)	1,078,050	(71,986)	0	16,336	988,619	334,325	654,390

EXHIBIT I
SHEET 2 of 3

FCC REPORT 43-01
ARMIS ANNUAL REPORT
COMPANY: BellSouth Telecommunications
STUDY AREA: BST
PERIOD: From Jan 1997 To Dec 1997

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PAGE 2 OF 2

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(Dollars in thousands)

(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
	Total	Nonreg	All Other Adjustments	ARMIS Adjustments	Subject to Separations	Interstate	State
Plant-in-Service							
1620 Support Plant	6,386,564	419,021	0	26,826	5,940,717	1,459,045	4,481,672
1630 Operator Systems Equipment	152,944	255	0	9,737	142,952	19,999	122,953
1640 COE-Switching	8,364,798	157,262	0	503,364	7,704,172	1,178,246	6,525,926
1650 COE-Transmission	10,156,892	32,680	0	158,442	9,965,770	3,384,204	6,581,566
1660 Cable And Wire Facilities	21,620,126	44,480	0	388,628	21,187,018	5,417,238	15,769,780
1670 IOT Equipment	394,054	7,081	0	(61,852)	448,825	111,989	336,836
1680 Amortizable Assets	127,913	9,740	0	(140)	118,313	29,169	89,144
1690 Total Plant-in-Service	47,203,291	670,519	0	1,025,005	45,507,767	11,599,890	33,907,877
Other Investments							
1705 Other Jurisdictional Assets-Net	(484,271)	0	0	(193,783)	(290,488)	0	(290,488)
1710 Property Held For Future Use	12	0	0	(18)	30	9	21
1720 Plant Under Construction	313,682	3,427	0	16,638	293,617	74,828	218,789
1730 Plant Acquisition Adjustment	2,537	12	0	2,525	0	0	0
1740 Invest in Nonaffil Companies	3,243	3,243	0	0	0	0	0
1750 Other Deferred Charges	389,891	12,171	0	377,720	0	0	0
1760 Inventories	227,588	4,931	0	(27,094)	249,751	63,910	185,841
1770 Cash Working Capital	0	0	0	0	0	(54,959)	54,959
1780 FCC Investment Adjustment	0	0	0	0	0	65,451	(65,451)
1790 Total Other Investments	452,682	23,784	0	175,988	252,910	149,239	103,671
Reserves							
1820 Accumulated Depreciation	24,154,738	277,816	0	969,807	22,907,115	5,946,729	16,960,386
1830 Accumulated Amortization	76,257	5,783	0	(471)	70,945	17,502	53,443
1840 Deferred FIT	3,117,824	(3,566)	0	60,350	3,061,040	745,074	2,315,966
1850 Customer Deposits	46,760	1,370	0	1,341	44,049	11,199	32,850
1870 Other Deferred Credits	164,141	117,145	0	1,888	45,108	11,502	33,606
1880 Other Juris Liab & Def Crs-Net	2,026,126	0	0	1,027,474	998,652	255,362	743,290
1885 FCC Reserve Adjustment	0	0	0	0	0	0	0
1890 Total Reserves	29,585,846	398,548	0	2,060,389	27,126,909	6,987,368	20,139,541
Return Data							
1910 Average Net Investment	N/A	N/A	N/A	N/A	18,633,768	4,761,761	13,872,007
1915 Net Return	N/A	N/A	N/A	N/A	N/A	784,180	N/A
1920 Rate Of Return	N/A	N/A	N/A	N/A	N/A	16.47%	N/A
1925 FCC Ordered Refund	N/A	N/A	N/A	N/A	N/A	0	N/A
1926 Refund Adjusted for Taxes	N/A	N/A	N/A	N/A	N/A	0	N/A
1930 Net Return Including FCC Refund	N/A	N/A	N/A	N/A	N/A	784,180	N/A
1935 Rate Of Return (including refund)	N/A	N/A	N/A	N/A	N/A	16.47%	N/A

NEW ARMIS REPORT 43-01
COLUMN DEFINITIONS

<u>Column</u>	<u>Definition</u>
b. <u>Total</u>	- This column reflects the operating results for each of the rows itemized in this report and includes all regulated and non-regulated company operations for each row. These amounts are presented prior to separation between state and interstate jurisdictions and are reported as booked, per Part 32 of the Commission's Rules.
c. <u>Non-regulated</u>	- This column reflects the amount of each row pertaining to non-regulated activities in compliance with Part 64 of the Commission's Rules.
d. <u>All Other Adjustments</u>	- This column reflects the costs of any other adjustments defined by the Commission for removal prior to jurisdictional separations.
e. <u>ARMIS Adjustments</u>	- This column reflects adjustments such as accounting adjustments necessary to arrive at the amount subject to jurisdictional separation.
f. <u>Subject to Separations</u>	- This column reflects that portion of each row that must be allocated between state and interstate jurisdictions pursuant to Part 36 of the Commission's Rules. Column (b) less columns (c), (d), (e) and (f). This amount also equals the sum of columns (h) and (i) except for those rows where N/A appears in column (g).
g. <u>Interstate</u>	- This column reflects that portion of each row that is allocated to the interstate jurisdiction for which this schedule is being filed, pursuant to Part 36 of the Commission's Rules.
h. <u>State</u>	- This column reflects that portion of each row that is allocated to the state jurisdiction for which this schedule is being filed, pursuant to Part 36 of the Commission's Rules. The cost of de-tariffed CPE shall be entered in this column pursuant to Part 36.142.

EXHIBIT II
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FCC REPORT 43-02
ARMIS STATISTICAL DATA
COMPANY: BellSouth Telecommunications
STUDY AREA: SST
PERIOD: From Jan 1997 To Dec 1997

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TABLE 1 - UNIVERSAL SERVICE FUND

	HIGH COST (b)	LOW INCOME (c)	SCHOOLS LIBRARIES (d)	RURAL HEALTH (e)	TOTAL USF (f)	TOTAL NON-USF (g)	ACCOUNT TOTAL (h)
(a)							
100 Tot Access Exp (A/C \$540,000)	100	100	100	100	400	200	600
110 Tot IS Access Exp (\$540,1000)	XXX	XXX	XXX	XXX	XXX	100	100
120 Tot ST Access Exp (\$540,2000)	XXX	XXX	XXX	XXX	XXX	100	100
130 Tot USF Exp (\$540,3000)	100	100	100	100	400	XXX	400

TABLE 2 - SUMMARY OF SEPARATIONS ALLOCATORS

CATEGORY (a)	SUBJECT TO SEPNS (b)	INTERSTATE (c)	STATE (d)
1000 BASIC ALLOCATION FACTOR	100.00%	25.00%	75.00%
1010 DIAL EQUIPMENT MINUTES	44,642	4,925	39,718
1020 TANDEM MINUTES OF USE	4,055	1,631	2,424
1030 SUB LINE MINUTES OF USE	44,582	4,915	39,668
1040 MINUTES OF USE	161,076,961	15,659,255	145,417,706
1050 CONVERSATION MINUTES	4,497	2,138	2,358
1060 CONVERSATION MINUTE KM	381,097	167,159	213,938
1070 DA WSWs	1,282,358	247,875	1,034,383
1080 INT WSWs	6,187	683	5,504
1090 PL/WATS LOOPS	55,638	0	55,638
1100 SUB/CL LOOPS	1,756,899	N/A	N/A
1110 LOOP ALLOCATION FACTOR	100.00%	25.00%	75.00%
1120 TOT WORKING LOOPS	1,812,538	N/A	N/A
1130 LOCAL MESSAGES	1,665,989	N/A	1,665,989
1140 TOLL MESSAGES	267,911	107,719	160,192
1150 TOTAL MESSAGES	1,933,900	N/A	N/A
1160 TOTAL BILLABLE ACCESS LINES	1,728,000	N/A	N/A
1170 PL ACCOUNTS	234,108	2,952	231,156
1180 DIR AD USERS	48,875	N/A	N/A
1190 MSG TOLL USERS	1,213,301	N/A	N/A
1200 TOT CURR USERS	2,632,151	N/A	N/A

TABLE 3 - Miscellaneous Data

CATEGORY (a)	SUBJECT TO SEPNS (b)	INTERSTATE (c)	STATE (d)
2000 Lifeline Adjustment	0	700	(700)
2010 Universal Service Fund	0	10,000	(10,000)
2020 Common Line Support-Transitional	N/A	(50,000)	N/A

TABLE 4 - Access Line Data

3000 Single Line Residence	500,000
3010 Residence Lifeline	200,000
3020 Residence Non-Lifeline	14,000,000
3030 Multiline Business-Centrex Co & CT	6,000,000
3040 Lines Subject to Special Surcharge	7,000
3050 TOTAL BILLABLE ACCESS LINES	20,707,000

NEW ARMIS REPORT 43-02
STATISTICAL DATA

New ARMIS Report 43-02 contains statistical data relating to access lines, allocations factors, etc. that are used to apportion/allocate costs per Parts 36 and 69 of the Commission's Rules.

TABLE 1 - Universal Service Fund

Provides a summary of USF contributions booked to Account 6540 by fund type (High Cost, Low Income, Schools & Libraries, Rural Health. Also included is a summary of non-USF expenses which are also booked to Account 6540.

TABLE 2 - Separations Allocators

Provides a summary of the major allocators used to separate costs between jurisdictions.

TABLE 3 - Miscellaneous Data

Summarizes Lifeline and USF revenues received during the year.

TABLE 4 - Access Line Data

Displays access lines by Single Line Residence, Residence Lifeline, Residence Non-Lifeline, Multi-line Business, Lines Subject to Special Surcharge and Total Billable Access Lines.

EXHIBIT III
SHEET 1 of 3

FCC REPORT 43-04
ARMIS ACCESS REPORT
COMPANY: BellSouth Telecommunications
STUDY AREA: BST
PERIOD: From Jan 1997 To Dec 1997

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TABLE I - COST AND REVENUE TABLE
(Dollars in thousands)

(a)	(b) Common Line	(c) Traffic Sensitive	(d) Trunking	(e) Total Access	(f) Billing & Collection	(g) IX	(h) Interstate
Revenues							
1010 Basic Local Services	0	0	0	0	0	0	0
1020 Network Access Services	1,889,316	623,944	1,062,553	3,575,813	0	9,189	3,585,000
1030 Toll Network Services	0	0	0	0	0	14,536	14,536
1040 Miscellaneous	7,185	801	2,486	10,472	81,202	6	91,683
1045 Nonregulated	0	0	0	0	0	0	0
1050 Settlements	0	0	0	0	0	6	6
1060 Uncollectible	21,348	0	16,488	37,836	35	427	38,295
1090 Total Operating Revenues	1,875,153	624,745	1,048,551	3,548,449	81,167	23,310	3,652,930
Expenses							
1120 Plant Specific	413,999	48,764	146,740	609,503	0	374	609,878
1130 Plant Non-Specific	148,430	20,957	61,433	230,820	0	163	230,983
1140 Customer Operations Marketing	96,315	14,171	39,627	150,113	0	105	150,217
1150 Customer Operations Services	30,580	24,716	27,489	82,785	124,540	9,469	216,791
1160 Corporate Operations	175,703	27,910	69,431	273,044	31,345	2,573	306,963
1170 Access	0	0	0	0	0	4,772	4,772
1180 Depreciation/Amortization	482,333	95,852	260,360	838,545	0	751	842,185
1185 FCC Expense Adjustment	466	67	(110)	423	0	0	424
1190 Total Operating Expenses	1,347,826	232,437	604,970	2,185,233	155,885	18,207	2,362,213
Other Operating Items							
1290 Other Operating Income/Losses	(77)	(13)	(27)	(117)	0	0	(117)
Non-Operating Items							
1320 Inc Effect/Jurisdictional Diff (Rev)	0	0	0	0	0	0	0
1330 Extraordinary Items (Rev)	0	0	0	0	0	0	0
1340 AFUDC (Rev)	2,610	381	1,092	4,083	0	(1)	4,082
1350 Special Charges (Exp)	2,611	384	1,061	4,056	0	4	4,060
1360 All Other Non-Oper Items (Rev)	0	0	0	0	0	0	0
1370 FCC Non-operating Adj (Exp)	0	0	0	0	0	0	0
1390 Total Non-oper Items (Exp)	1	3	(31)	(27)	0	5	(22)
Other Taxes							
1410 State And Local Income	16,756	20,588	20,191	57,535	(4,285)	268	53,309
1420 Other State And Local	75,722	12,308	30,613	118,643	0	163	118,808
1490 Total Other Taxes	92,478	32,896	50,804	176,178	(4,285)	431	172,117
Federal Income Taxes							
1510 Fixed Charges (Exp)	85,576	11,409	34,010	130,995	0	90	131,207
1520 IRS Income Adjustment (Rev)	20,212	(6,967)	(13,146)	99	0	(51)	(155)
1530 FCC Taxable Income Adj (Rev)	448	64	185	697	0	0	700
1540 ITC Amortization (Rev)	7,266	1,027	2,978	11,271	0	7	11,420
1550 FCC ITC Adjustment (Rev)	0	0	0	0	0	0	0
1590 Net Federal Income Taxes (Exp)	122,183	118,352	118,055	358,590	(24,652)	1,579	334,325

EXHIBIT III
SHEET 2 of 3

FCC REPORT 43-04
ARMIS ACCESS REPORT
COMPANY: BellSouth Telecommunications
STUDY AREA: BST
PERIOD: From Jan 1997 To Dec 1997

Approved By OMB
Expires:
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TABLE I - COST AND REVENUE TABLE
(Dollars in thousands)

(a)	(b) Common Line	(c) Traffic Sensitive	(d) Trunking	(e) Total Access	(f) Billing & Collection	(g) IX	(h) Interstate
Plant-in-Service							
1620 Support Plant	932,680	132,484	392,434	1,457,598	0	1,090	1,459,045
1630 Operator Systems Equipment	0	12,914	0	12,914	0	7,087	19,999
1640 COE-Switching	0	904,437	249,795	1,154,232	0	0	1,178,246
1650 COE-Transmission	1,450,297	0	1,926,598	3,376,895	0	0	3,384,204
1660 Cable And Wire Facilities	4,912,418	0	504,146	5,416,564	0	0	5,417,238
1670 IOT Equipment	111,868	0	122	111,990	0	0	111,989
1680 Amortizable Assets	18,535	2,652	7,958	29,145	0	20	29,189
1690 Total Plant-in-Service	7,425,798	1,052,487	3,081,053	11,559,338	0	8,197	11,599,890
Other Investments							
1705 Other Jurisdictional Assets-Net	0	0	0	0	0	0	0
1710 Property Held For Future Use	4	0	1	5	0	0	9
1720 Plant Under Construction	47,935	6,816	20,023	74,774	0	53	74,828
1730 Plant Acquisition Adjustment	0	0	0	0	0	0	0
1740 Invest in Nonaffil Companies	0	0	0	0	0	0	0
1750 Other Deferred Charges	0	0	0	0	0	0	0
1760 Inventories	40,339	5,958	17,561	63,858	0	50	63,910
1770 Cash Working Capital	(35,227)	(5,065)	(14,622)	(54,914)	0	(47)	(54,959)
1780 FCC Investment Adjustment	44,310	6,467	14,626	65,403	0	49	65,451
1790 Total Other Investments	97,361	14,176	37,589	149,126	0	105	149,239
Reserves							
1820 Accumulated Depreciation	3,815,312	536,501	1,567,756	5,919,569	0	4,151	5,946,729
1830 Accumulated Amortization	11,094	1,575	4,817	17,486	0	13	17,502
1840 Deferred FIT	408,597	90,332	240,938	739,867	0	699	745,074
1850 Customer Deposits	7,198	1,055	2,940	11,193	0	8	11,199
1870 Other Deferred Credits	7,364	1,082	3,051	11,497	0	8	11,502
1880 Other Juris Liab & Def Crs-Net	163,104	23,772	68,305	255,181	0	183	255,362
1885 FCC Reserve Adjustment	0	0	0	0	0	0	0
1890 Total Reserves	4,412,669	654,317	1,887,807	6,954,793	0	5,062	6,987,368
Return Data							
1910 Average Net Investment	3,110,490	412,346	1,230,835	4,753,671	0	3,240	4,761,761
1915 Net Return	N/A	N/A	N/A	N/A	N/A	N/A	784,180
1920 Rate Of Return	N/A	N/A	N/A	N/A	N/A	N/A	16.47%
1925 FCC Ordered Refund	N/A	N/A	N/A	N/A	N/A	N/A	0
1926 Refund Adjusted for Taxes	N/A	N/A	N/A	N/A	N/A	N/A	0
1930 Net Return Including FCC Refund	N/A	N/A	N/A	N/A	N/A	N/A	784,180
1935 Rate Of Return (including refund)	N/A	N/A	N/A	N/A	N/A	N/A	16.47%

NEW ARMIS REPORT 43-04
COLUMN DEFINITIONS

<u>Column</u>	<u>Definition</u>
b. <u>Common Line</u>	- This column reflects the costs of the local loop Pursuant to Part 69 of the Commission's Rules.
c. <u>Traffic Sensitive</u>	- This column reflects the amounts that are assigned to the Traffic Sensitive Access elements pursuant to Part 69 of the Commission's Rules.
d. <u>Trunking</u>	- This column reflects that portion of each line item applicable to charges assessed upon all interexchange carriers who use switching, transport or special access facilities. The amounts entered in this column are assigned pursuant to Part 69 of the Commission's Rules.
e. <u>Total Access</u>	- The total of columns (b), (c) and (d).
f. <u>Billing & Collection</u>	- This column reflects that portion of each row applicable to Billing & Collection services pursuant to Part 69 of the Commission's Rules.
g. <u>Interexchange</u>	- This column reflects that portion of each row applicable to Interexchange services pursuant to Part 69 of the Commission's Rules.
h. <u>Interstate</u>	- The total of columns (e), (f) and (g).